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**BAUCUS, GRASSLEY, WYDEN, SNOWE INTRODUCE
THE COMPENSATION FAIRNESS ACT OF 2009**

Legislative proposal limits abuse of TARP funds, recoups taxpayer dollars

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.), Ranking Member Chuck Grassley (R-Iowa), Senator Ron Wyden (D-OR), and Senator Olympia Snowe (R-ME) today introduced the Compensation Fairness Act of 2009, legislation to discourage excessive compensation by companies that have taken taxpayer funds, and recoup payments made to executives at recipient institutions of funds from the Troubled Assets Relief program (TARP). For companies that received TARP funds, the legislation would impose a 35 percent excise tax on both employers and employees, on retention bonuses and other bonuses. The proposal would also put a cap on the amount of income employees of these companies are allowed to defer tax free. Small banks as defined by the tax code and entities that received less than \$100 million in TARP funds would be exempt from the legislation.

"I've said before that paying excessive bonuses to the same group of folks that helped get us into this crisis is simply unacceptable. Millions of Americans continue to struggle to get by, counting their dollars, and Congress needs to do the same. We need to track Federal dollars now more than ever," said Baucus. **"We must act quickly on this proposal – for the sake of the American taxpayer, for the sake of what's right to do. I will work with my colleagues in both the House and Senate to make sure that's what happens."**

"I wish we didn't have to do this, but the administration didn't stop the bonuses this year, and the TARP legislation Congress passed last year didn't include strong provisions to limit executive compensation at companies taking bailout money, and I said so at the time," Grassley said. **"Using bailout dollars for bonuses after companies have been run into the ground adds insult to injury against taxpayers. Without the massive infusion of public dollars through the bailout program, these companies wouldn't even exist anymore, much less be handing out bonuses. Instead, the bonuses have done a lot of damage to public confidence in the financial sector, which was already very low. The outrage you see at the grass roots is justified."**

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"Getting bailed out by the American taxpayer was more than enough of a bonus for these companies and individuals," said Wyden. "I'm hoping the second time is the charm for our bipartisan approach."

"If Washington is serious about ensuring that AIG's gluttonous bonuses are the last corporate abuse of taxpayer rescue dollars, then we must act swiftly to enact meaningful and effective legislation that includes some real teeth," said Senator Snowe, a senior member of the Senate Finance Committee. **"This bipartisan compromise ensures that money paid out under the TARP program will not be funneled into obscene bonuses. In order to restore confidence in our financial institutions, we must end the arrogant culture that has ignored the hardship of Main Street and imposed further abuse on the American people."**

Additional original co-sponsors of the legislation include Senators Jeff Bingaman (N.M.), John Kerry (D-Mass.), Patty Murray (D-Wash.), Chuck Schumer (D-N.Y.), Blanche Lincoln (D-Ark.), Bill Nelson (Fla.), Debbie Stabenow (D-Mich.), Maria Cantwell (D-Wash.), Robert Menendez (D-N.J.). A summary of the proposal follows here:

"Compensation Fairness Act of 2009"

Excise Tax on Excess Bonuses. This provision imposes an excise tax of 35% on retention and non-retention bonuses. The excise tax is imposed on both the employer and the employee and the excise taxes are not deductible. For retention bonuses, the excise tax is imposed on the full amount of the bonus. For non-retention bonuses, the excise tax is imposed on all amounts over \$50,000. Non-retention bonuses would not include certain equity-based compensation (including certain stock options and stock appreciation rights, and long-term restricted stock), provided such equity-based compensation is subject to a 3-year service vesting period. The provision includes regulatory safeguards that help to prevent companies from characterizing bonus payments as salaries to avoid the tax. The provision applies to TARP recipients of government funds in which the government holds an equity interest, including Fannie Mae and Freddie Mac. The provision does not apply to (1) small banks or (2) large banks (as defined under Code section 585(c)) that have received \$100 million or less of TARP funds or other government assistance. If a large bank pays back to the Federal government amounts that result in the bank holding \$100 million or less of TARP funds or other government assistance, the excise taxes would not apply to bonuses paid after the re-payment date. Individual employees may also pay back the bonus to the institution and avoid the excise taxes. The provision is effective for bonuses earned or paid on or after January 1, 2009 and through the period during which the company has at least \$100 million in TARP funds.

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One Million Dollar Cap on Deferred Compensation. The provision imposes a \$1 million limit on nonqualified deferred compensation, preventing taxpayers from deferring more than \$1 million in a 12 month period. If the \$1 million limit is violated, compensation deferred under all nonqualified deferred compensation plans covering the taxpayer (including compensation deferred in previous years) would be taxable and such deferred amounts would be subject to a 20% penalty tax and interest payment. The \$1 million limit is indexed for inflation. Interest and earnings on compensation deferred during the 12 month period would not be counted against the \$1 million limit, so long as the earnings are based on a “market rate” of return. The provision applies to TARP recipients of government funds in which the government holds an equity interest, including Fannie Mae and Freddie Mac. The provision does not apply to (1) small banks or (2) large banks (as defined under Code section 585(c)) that have received \$100 million or less of TARP funds or other government assistance. If a large bank pays back to the Federal government amounts that result in the bank holding \$100 million or less of TARP funds or other government assistance, the deferred compensation limitation would not apply after the re-payment date. The provision directs Treasury to issue guidance allowing (1) an institution to cancel or modify an outstanding deferral election or (2) an individual to terminate participation in the nonqualified deferred compensation plan without being subject to the provision or the penalties that would otherwise apply under Code section 409A. The provision is effective for all compensation deferred after the date of enactment and through the period during which the company has at least \$100 million in TARP funds.

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